

MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND
June 16, 2016

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Thursday, June 16, 2016, at 3:00 p.m. on the second floor of the Fire Department Administrative Building at 204 S. First Street, Rockford, Illinois, pursuant to notice.

CALL TO ORDER

The meeting was called to order at 3:00 p.m. Upon a call of the roll, the following answered:

ATTENDED: Alan Granite, President Bill Beaman, Secretary
 Tracy Renfro, Trustee Carrie Eklund, Trustee/Interim City Finance Director
 Michael White, Trustee

STAFF: Linda Wlaznik, Pension Investment Accountant Judi Yehling, Recording Secretary

GUESTS: Attorney Carolyn Clifford, Ottosen Britz Mike Piotrowski, Marquette Associates
 Christopher Chard, Brandes Investment Trust

I. PUBLIC COMMENT -- None

II. MINUTES

- The May 19, 2016, minutes of the regular meeting were presented. Tracy Renfro made a motion to approve the minutes as presented and Carrie Eklund seconded the motion. Upon a voice vote, the motion passed.

III. APPROVAL OF APPLICATIONS/PENSION CHANGES

- Lieutenant Edgar Daugherty died May 27, 2016, and his pension will terminate. Note was made that there is a slight amount due back to the Fund which has already been paid by the estate.

Michael White made a motion, seconded by Tracy Renfro, to approve the termination of Edgar Daugherty's pension. A roll call vote was taken:

Ayes: Alan Granite Bill Beaman
 Tracy Renfro Carrie Eklund
 Michael White

Nays: None

- Sue Kerlin, surviving spouse of Firefighter Jack Kerlin, died on May 17, 2016, and her surviving spouse pension will terminate. Tracy Renfro made a motion, seconded by Carrie Eklund, to approve termination of Sue Kerlin's surviving spouse pension. A roll call vote was taken:

Ayes: Alan Granite Bill Beaman
 Tracy Renfro Carrie Eklund
 Michael White

Nays: None

IV. DISBURSEMENTS

- Michael White made a motion to approve the June payroll of \$1,388,003.49. Tracy Renfro seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Bill Beaman
 Tracy Renfro Carrie Eklund
 Michael White
Nays: None

- Invoices totaling \$26,035.81 as shown in the warrant packet were presented. The Board explained the bills as they appear on the warrant packet for the benefit of the new Trustee, Bill Beaman. It was noted that the invoice for Marquette Associates showed a quarterly amount owing of \$16,250.00 but a "Total Customer Balance" of \$48,750.00; question was raised as to what that "Balance" figure refers to. Mike Piotrowski will check into what that amount reflects. A motion was made by Michael White, and seconded by Tracy Renfro, to pay the invoices as presented in the warrant packet. A roll call vote was then taken:

Ayes: Alan Granite Bill Beaman
 Tracy Renfro Carrie Eklund
 Michael White
Nays: None

V. CASH & INVESTMENTS

- Christopher Chard of Brandes Investment Trust, the international small cap manager, presented his report:
 - Chard began his presentation by discussing the broad international market, stating that Italy is down 24%, China 19% and Japan 16%. However, Brandes is up 6% versus the benchmark at 3%. Overall he believes there is reason for optimism and that there are opportunities in this asset class.
 - As a firm Brandes has 300 employees and is completely employee-owned. They do not have a lot of turnover and are a very stable organization. It is a "big pond" but there are only 11 value managers in this asset class with a ten-year history.
 - Page 3 of the presentation shows how the portfolio is allocated. Currently, the portfolio is overweight to emerging markets and consumer staples versus the benchmark and underweight to financials and industrials. The large amount of holdings in emerging markets is based on the fact that while only 10% of the world market capitalization is emerging markets, 80% of the world's population is within those countries. Using a Brazilian company as an example, he pointed out it how very inexpensive it is, a "dirt cheap" valuation in an emerging market. The company sells in US dollars and Euros and input (labor) is cheap and there is no hint of corruption in the company like this which means prospects are good. All of this is why Brandes believes this sort of company and the emerging markets in general need to be over represented in the portfolio.
 - Chard positioned this portfolio and emerging markets as having a very defensive position with the overweight to non-cyclical stocks like consumer staples and utilities. And there is enough cash in the portfolio to "scoop up more bargains."
 - Chard discussed the top ten holdings listed on page 7 and why they own them like Wm. Morrison which you could buy for \$4 million and own \$80 million worth of real estate. The total number of companies held is 70.

- Referring to page 9, Chard said that the portfolio returns were positive and it has done well relative to the benchmark. The P/CF and P/E indicators show good valuations. When questioned about Great Britain being the largest sector of holdings, Chard responded that they are buying deep value so there is no difference whether they stay in the EU or not; it's just that its exit will create volatility.
- It is Brandes' belief that EM (emerging markets) sector is "turning and starting to take hold;" there is a lot of consumption to be had with the emerging middle class. It seems to be stabilizing and "we're starting to see real results."
- Mike Piotrowski followed Chard's presentation by commenting that the EM countries are tied to commodities "which tells us how EM is doing." Brandes is "a little early, but valuations are extremely compelling in this space."
- Asked about rebalancing since the Fund is underweight to DFA and Manning & Napier, Mike Piotrowski responded by saying that right now there is not "a lot of clarity." The Fed did not raise interest rates, and there are concerns with global growth. "This is not the time to make significant bets" or changes to the policy... "now is not the time to rebalance." Balancing of the Fund assets has been done when meeting cash needs, and the Fund is in line with the long term policies and strategic plan. All three portfolios (DFA, Brandes, and Manning) have EM exposure and he is "comfortable with the positioning today." Manning and Brandes together are up 3.7%, and small cap and EM are outperforming YTD. "We could see some significant returns come out of the international market."
- Mike Piotrowski presented Marquette Associates' Flash Report as of May 31, 2016:
 - The Fund was up 0.3% for the month and positive 4% YTD, putting it on pace with the assumed rate of return. It is outperforming the policy benchmark and broad markets, largely due to real estate exposure. This is a "good start for the year."
 - There will be a review of Alert statuses when the quarterly report is presented next month.
 - Mike Piotrowski summarized for the benefit of the Trustee Beaman, the Board's newly elected member, that the goal of the Fund is a 7.5% return every year with the least amount of risk. However, it must operate under some restrictive guidelines regarding types of investments, particularly the requirement that 35% of investments must be in bonds which currently only provide a return of 2%. The last time the Fund hit the assumed rate of return was two years ago, giving rise to the question if these return rates are achievable or realistic. However, if the assumption is lowered, then the City's contributions to the Fund must rise.
- There are no cash needs for the month; June and September bring an influx of cash due to property taxes and part of that is allocated to each pension fund
- Records of purchases and sales were distributed. As far as why purchases and sales are shown, only three of the fund managers hold individual securities (Hillswick, Segal-Bryant and Fiduciary-US Small Cap), and have third-party custody and full discretion to trade within the account, but within certain guidelines that we provide. Michael White made a motion, seconded by Tracy Renfro, to approve the purchases and sales for the month. A roll call vote was taken:

Ayes: Alan Granite Bill Beaman
 Tracy Renfro Carrie Eklund
 Michael White

Nays: None

VI. OLD BUSINESS

- Exhibits for Carla Heitter's disability case are ready and Attorney Clifford has the disks prepared which she provided to Linda Wlaznik. However, Attorney Duda has objected to Dr. Levin's report, and he does not want it to go to the Board as of yet; the end result is he wants Dr. Levin to testify. What will happen is that we will have the IME physician testify by speaker phone so he does not have to appear in person and we do not have to take a deposition. July 21, the next Board meeting, does not work for Attorney Duda so another date will have to be set. Once that date is set, the exhibits will be distributed. Linda Wlaznik will coordinate with Board members and let Attorney Clifford know a few dates so she can contact Attorney Duda and then see about Dr. Levin's availability; we only need an hour of his time.
- Attorney Clifford reported that the appointments with the IME physicians in Vince Boris' disability case have been scheduled: Dr. Samo on June 27th, Dr. Gleason on July 19th and Dr. Williamson-Link on June 23rd. Lieutenant Boris will be represented by Greg Tuite Law.
- There is no actuarial report available yet but there was some discussion of what to expect. Carrie Eklund said that anticipated increases in contributions that were talked about at last month's meeting were based on the new 2014 mortality tables which are meant to represent the firefighters' fund population. However, Linda Wlaznik did some research that indicates that this 2014 table is not meant for public safety workers. She also found from the DOI that they are still using the 2000 mortality table. Linda Wlaznik subsequently contacted Tim Sharpe, the actuary, and asked him to use the 2000 mortality table. Carrie Eklund said that the report would be available mid- to late August and the change would not be as dramatic as the 44% or \$6 million increase as previously thought, based on other municipalities' experiences. When giving a five-year projection for the General Fund on Monday, there was a 30% jump over 2016 for 2017.
- Linda Wlaznik takes care of the Fund's annual statement to the DOI and as such she needs to be approved as the "DOI Security Administrator." Michael White made a motion, seconded by Tracy Renfro, to approve Linda Wlaznik as the DOI Security Administrator. DOI has set a deadline of August 1st to submit the new DOI Security Administrator form. A roll call vote was taken:

Ayes:	Alan Granite	Bill Beaman
	Tracy Renfro	Carrie Eklund
	Michael White	
Nays:	None	
- The City audit is in progress. It will start the second week of July and be ready the end of September.
- Officer elections were held for Secretary and President. Tracy Renfro made a motion to nominate Alan Granite for President and Bill Beaman as Secretary, the motion was seconded by Alan Granite. Upon a voice vote, the motion passed.
- The inquiry from Curt Gazouski about combining creditable service was discussed, and Linda Wlaznik provided the historical background. Attorney Clifford stated that the statute governing combined creditable service was passed in July 2004 and amended it in early 2005, adding the 21-month deadline to file intentions to combine creditable service. Because Gazouski joined the department in 2000 (prior to the 2005 law change), he is grandfathered in and does not have to meet the 21-month deadline. However, he does have to pay back Belvidere Firefighters' Pension Fund before he retires, as well as pay an additional 1% to Rockford Firefighters' Pension Fund, with 6% interest on these payments. It is his obligation to approach Belvidere. Attorney Clifford noted that combined creditable service does not require actuarial input.

The Board will have to tell Gazouski how much he will owe to the Fund (the additional 1% employee contribution with 6% interest) and then decide if the Board will forgive any part of the 6% interest since it appears the previous Board did not provide contribution information to him to move forward when it was originally notified in 2005. Attorney Clifford said chances are that Belvidere Firefighters' Pension Fund will not forgive any portion of the required interest payment, but the Board will need to do actual calculations and quantify what he will owe and present it to him. When the Fund begins collecting the additional 1%, if he wants to "get out" of the combined creditable service at a later date, the Fund would be required to hold onto the excess contribution until he retires when it is paid out as a lump sum amount without interest. The calculations need to be made so Gazouski can make an informed consent. The Board will be setting a precedent, whatever it decides. Alan Granite confirmed that he can inform Gazouski that he will have the calculations either next month or the following month and that he should contact Belvidere Fire. It will be his choice as to whether he proceeds.

VII. NEW BUSINESS

- Closed session minutes were reviewed and those closed session tapes that were eligible to be destroyed by June 30th. The tape of Barry Fitz's disability hearing can be destroyed but the McCallips' tape is not yet eligible. Tracy Renfro made a motion, seconded by Carrie Eklund, to destroy the audio tape of Barry Fitz's disability hearing. A roll call vote was taken:

Ayes: Alan Granite Bill Beaman
Tracy Renfro Carrie Eklund
Michael White

Nays: None

Alan Granite made a motion, seconded by Tracy Renfro, that the remaining written minutes remain closed. A roll call vote was taken:

Ayes: Alan Granite Bill Beaman
Tracy Renfro Carrie Eklund
Michael White

Nays: None

- Mike Piotrowski presented a proposal for an adjustment to Marquette's fee schedule. The previous fee schedule based on the 2013 RFP was in effect until 2016. The \$65,000 annual fee has been in place since 2011 and was good for five years. Marquette is requesting a new annual fee of \$70,000 which would be guaranteed for two years.. This is a flat fee unlike other fund advisors who charge based on a percent of assets. Tracy Renfro made a motion, seconded by Carrie Eklund, to approve the updated schedule of fees for Marquette with a two-year guarantee. A roll call vote was taken:

Ayes: Alan Granite Bill Beaman
Tracy Renfro Carrie Eklund
Michael White

Nays: None

- Mike Piotrowski asked the Board to authorize, as a "housekeeping" matter, for Northern Trust to share information directly with Marquette. Michael White made a motion to approve the sharing of Fund information by Northern Trust directly with Marquette and Tracy Renfro seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Bill Beaman
Tracy Renfro Carrie Eklund
Michael White
Nays: None

- Legal Updates from Attorney Clifford:
 - She has nothing new to report about the proposed combining of fire and police pension funds in the State of Illinois, and the issue appears to be dead for this legislative session.
 - There is a new decision from the Third District Appellate Court concerning a fire chief who retired from a fire district and then became chief administrator of the district. The facts were that the fire district hired no new fire chief at first, but eventually the district hired a new fire chief. Members of the pension fund sued the pension fund seeking to force the fund to recoup the \$17,000 of retirement benefits paid the retired chief before a new fire chief was hired, but the court decided that the retired chief did not re-enter active service when he became the chief administrator because he did not engage in any firefighting. The court concluded that the fund cannot recoup the \$17,000 in benefits, but there was a dissenting decision that suggested that a fire department employee (such as some fire chiefs) who do not engage in actual firefighting activities do not belong in Article 4 pension funds. This is not well settled law and it will probably go to the Illinois Supreme Court for further review.

VIII. CLOSED MEETING – None required.

IX. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned 4:55 p.m.

Next regular meeting is July 21, 2016, at 3:00 p.m.

Signed:



Bill Beaman, Secretary

8/18/2016
Date

Prepared by:

Judith Yehling, Recording Secretary

Date

Approved by the Board of Trustees at its July 21, 2016, meeting.