

MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND
October 18, 2018

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Thursday, October 18, 2018, at 3:05 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 3:05 p.m. Upon a call of the roll, the following answered:

ATTENDED:	Bill Beaman, Secretary Michael White, Trustee Tracy Renfro, Trustee	Alan Granite, President Carrie Hagerty, Trustee/City Finance Director
STAFF:	Linda Wlaznik, Principal Accountant Judi Yehling, Recording Secretary	Allison Knox, Accountant
GUESTS:	Attorney Carolyn Clifford, Ottosen Britz Carrie Nichols, Fiduciary Management Inc. Shurice Hunter, Director, Human Resources, City of Rockford Attorney Roberta Holzwarth, Counsel to the Police Pension Board (entered at 4:35 p.m.)	Mike Piotrowski, Marquette Associates

I. PUBLIC COMMENT – None

II. MINUTES

The minutes of the regular September 20, 2018, meeting were presented. Tracy Renfro made a motion to approve the minutes and Bill Beaman seconded the motion. A roll call vote was taken:

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

III. APPROVAL OF APPLICATIONS/PENSION CHANGES

Captain David Wisniewski is retiring effective November 3, 2018, having served 30 years, 0 months and 10 days. He is entitled to a monthly pension of \$6,499.27 or an annual pension of \$77,991.20. Tracy Renfro made a motion, seconded by Michael White, to approve the retirement pension application as presented. A roll call vote was taken:

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

Frances Prezioso passed away September 3, 2018, and her surviving spouse pension will terminate. Michael White made a motion, seconded by Bill Beaman, to terminate Frances Prezioso's surviving spouse pension. A roll call vote was taken:

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

Marty Schoonover is eligible for his first increase; the monthly increase will be \$183.94/month for a monthly benefit of \$6,315.41 or an annual pension of \$75,784.92. Bill Beaman made a motion, seconded by Michael White, to approve the increase as presented. A roll call vote was taken:

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

IV. DISBURSEMENTS

Warrant packet for October 18, 2018, was presented in the amount of \$1,582,573.37. Alan Granite made a motion, seconded by Tracy Renfro, to approve payment of the warrant packet as presented in the amount of \$1, 582,573.37. A roll call vote was taken:

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

V. CASH & INVESTMENTS

J Carrie Nichols of Fiduciary Management, the U.S. small cap equity manager, presented their report:

- o Nichols introduced herself saying that she had just been made partner in the firm.
- o Currently Fiduciary has \$24.5 billion under management. Their funds are all open and she stressed the all the employees has their own money invested in the funds.
- o Nichols pointed out that Fiduciary has lowered the fee being charged by 5 basis points to 85 basis points as a goodwill gesture, saving the Firefighters' Pension Fund \$5,000 annually.
- o In October market overall saw a return to quality which is "where they traffic." This has helped their portfolios. Fiduciary did pick up some ground against the benchmark or 12 basis points. The volatility continues and they "hope to deploy more of (their) cash."
- o Q2 was one of the worst quarters in their history. Through Q1 they were up 2.431% but in Q2 they were down 7.07% and Q3 they were up 1.75%. Most of their underperformance in Q2 was "what they didn't own." There was a very narrow group of companies that drove the market. Valuations have been extremely elevated, and they've been very cautious as they don't want to overpay. They are looking at debt levels and balance levels. They are holding a lot of cash and are sticking to their strategy. They have a list of companies they are monitoring and a "wish list" of about 200 companies which they want to own at a better price.
- o Page 4 shows their return was 4.4% gross and 3.721% net versus the Russell 2000 at 7.14%. Fiduciary outperformed in Q1 and Q3 but Q2 gave them "a pretty big hole to dig out of." Page 5 shows they've outperformed the benchmark since inception and (page 6) have made \$17.6 million for the Firefighters Pension Fund.
- o Currently there are 35 stocks in the portfolio where typically they like to own 40-50. This is a direct result of what they see in the market today.
- o Pages 11 and 12 show the Fund's portfolio holdings which shows the cash percentage at 9% as of 9/30/18.

- Page 17 shows what happens in a bear market and how far you must go up to regain losses. Fiduciary protects on the downside, so they don't have as far to go up.
- Value, Nichols says, has been out of favor for almost a decade and she believes that it will be coming back if "history is any guide."

) Mike Piotrowski presented Marquette Associates' Flash Report for September 30, 2018:

- The Fund is currently at \$160.7 million and is a little overweight to US equity, underweight to international, underweight to fixed income and overweight to real estate which is where the Fund has been for the last several months.
- The month of September was slightly challenging with a performance of -0.2% but the third quarter was up 2.2%. It's been a "very challenging year" and the Fund is up 1.5%.
- Piotrowski provided an extra handout which shows the volatility by illustrating the S&P 500 market drawdown over time. Piotrowski commented that he thinks earnings are going to be "fantastic" in the coming months which should help the market whose total return was up 10.6% (and 6% today) but he does admit to the possible adverse effects of the interest rates and global trade.
- The other chart concerns the "R" word – recession. Marquette does not believe we're anywhere near a recession. Do believe we're "later in the cycle" but still okay. Fourth quarters tend to be strong and the active managers are doing well and will protect on the downside.
- Individually in real estate despite the disaster in Florida, none of Principal's properties were affected.
- Mike Piotrowski believes that there'll be a strong finish to the year if earnings meet expectations and 2019 should continue to be good but global trade and rising rates can have an effect. He stressed that 70% of the growth of the economy is the consumer so if they are affected negatively, then what happens in corporate America does not mean as much. This is not a time to take on excessive risk. Things go in cycles and we need to be sure to diversify.

Cash needs for the month are \$925,000 and the recommendation is to take it from US equities: \$150,000 from the Vanguard Value Index, \$550,000 from Vanguard Institutional Index, and \$225,000 from Vanguard Mid-Cap Index which should help rebalance the portfolio. Alan Granite made a motion, seconded by Michael White, to take \$150,000 from the Vanguard Value Index, \$550,000 from Vanguard Institutional Index, and \$225,000 from Vanguard Mid-Cap to meet cash needs for the month. A roll call vote was taken:

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

Records of purchases and sales were distributed. Tracy Renfro made a motion, seconded by Bill Beaman, to approve the purchases and sales for the month. A roll call vote was taken:

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

VI. OLD BUSINESS

Affidavits – Allison Knox informed Board that all affidavits had been received and everyone had been paid.

Gustafson disability matter – Attorney Carolyn Clifford told Board that Gustafson had his appointment Dr. Dinwiddie on October 15th and his next appointment is with Dr. Mosk on October 26th. Attorney Clifford will check again with Dr. Seltzburg to get a date set for the IME. Attorney Clifford provided a copy of a recently decided PTSD case where the decision was that the individual had not made a causal link to his duties as a firefighter and the pension board had awarded the applicant a non-duty which the court upheld upon appeal. She will incorporate this case into her legal principles memo that she always prepares to help the Board understand the legal issues when analyzing the current disability matter.

Status of Gazouski’s combined creditable service – There is nothing new to report in this matter, as Gazouski has not asked to proceed with the combination, and this will be removed from next month’s agenda.

Status of Lingel’s transfer of creditable service to Chicago – No new update. The Board continues to await additional information from the Chicago fire fund on next steps.

Annual Statement – Linda Wlaznik reported that it had been filed with the Illinois Department of Insurance, and it can be removed from the agenda.

Metheny Overpayment Issue – Linda Wlaznik stated that another check was received today from his daughter for \$200.00. It was noted that a payment was missed, and Linda Wlaznik has notified her of the missing payment. However, this last check was dated 10-4-18 so it would seem that she is back on schedule as the payments are due the first of the month.

Investment Consultant Services – (*Mike Piotrowski stepped out at 4:30 pm so the board could discuss the matter.*) Carrie Hagerty informed Board that the Police Board had disqualified the other consultant’s proposal because it did not meet the RFP minimum criteria and gave Attorney Holzwarth the authority to negotiate with Marquette the fees and annual escalators. Police extended the contract with Marquette through the end of the year.

After discussion, Michael White made a motion, seconded by Tracy Renfro, to reject the second proposal from Segal Markham for failure to meet minimum requirements. A roll call vote was taken:

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

Following further discussion of the Marquette’s fees and contract, Carrie Hagerty made a motion, seconded by Tracy Renfro, to authorize Attorney Clifford and Attorney Holzwarth to negotiate an agreeable fee and contract with Marquette.

A roll call vote was taken:

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

VII. NEW BUSINESS

Report to City Council – The draft tax levy report (municipal compliance report) was distributed to the Board members for review. Attorney Clifford provided the Board with the updated draft tax levy request letter. The critical issues are the recommendation of Nyhart of \$9,480,024 statutory minimum

contribution with a 7.5% investment return assumption and the DOI's calculation of \$14,368,433 as the statutory minimum contribution with a 6.5% investment return assumption. The letter highlights the 11.7% return for the Fund this year and Nyhart's comment that the 7.5% assumption should be reviewed and lowered next year. The letter also included a reminder to the City Council that there is over \$17 million in benefits going out each year. The draft letter included a reminder about the state intercept process and the fiduciary obligations of the Board. This letter should be included with the Board's investment policy statement and the tax levy (municipal compliance) report.

Attorney Clifford and the Board members discussed the points made in the letter, particularly with reference to the intercept law, the assumption disparity, the DOI's recommendation and fiduciary responsibility. Carrie Hagerty recommended deletion of the second to the last paragraph, and this was discussed at length among Board members.

Michael White made a motion, seconded by Alan Granite, to approve the letter as amended by striking the second to the last paragraph and to certify the municipal compliance report as presented. A roll call vote was taken:

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

City Fees – The Board was advised that the fees will go down for next year. The current charge is \$81,000 and for the year 2019 it will be \$76,400.

VIII. TRAINING

Legal updates – There were three quarterly handouts provided by Attorney Clifford: A copy of an article she wrote for the IAFFD Fire Call on the fiduciary principles in setting investment return assumptions, Ottosen Britz's Client Alert on Trustee Training, and the save the date flyer for the Annual Northern Illinois Alliance of Fire Districts Conference in late January in Oak Brook. She also provided other samples of other pension funds' monthly financial statements and municipal compliance reports for possible ideas on revising the Fund's documents in the future.

Attorney Clifford reminded Board that Allison Knox will need to be confirmed as FOIA/OMA officer and DOI Security Administrator at a future meeting.

IX. CLOSED MEETING – None

X. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried, and meeting was adjourned 4:40 p.m.

Next regular meeting is November 15, 2018, at 3:00 p.m.

Respectfully submitted:

Prepared by:

Bill Beaman, Board Secretary

Judith Yehling, Recording Secretary

Date

Date

Approved by the Board of Trustees at its November 15, 2018, meeting.