MINUTES
ROCKFORD POLICE PENSION FUND
August 16, 2018

MEMBERS PRESENT:	Jeff Nielsen, President Marcia Mueller, VP Joe Stevens, Secretary Scott Laue, Trustee	**ABSENT:** Randy Berke, Assist. Secretary
ALSO PRESENT:	Mike Piotrowski –Marquette Associates Roberta Holzwarth –HolmstromKennedy PC	
GUESTS:	Mike Zurek, Actuary, Nyhart	
STAFF:	Linda Wlaznik, Finance Allison Knox, Finance	

The August 16, 2018, Rockford Police Pension Board convened at City Hall, 425 E. State St., Jeff Nielsen called the meeting to order at 8:14 a.m.

Motion by Stevens and seconded by Laue to approve the July 19, 2018 minutes of the Board meeting. APPROVED.

PUBLIC COMMENT

NONE

CASH & INVESTMENTS

Piotrowski reminded the Board about Marquette's Fall Investment Symposium. The July Flash Report shows the value of the Fund at $195.5 million or about the same, net/net, as the beginning of the year, $196 million. The allocations are well within the Fund's policy limits. There are no cash needs the month of August.

July "was a great month" with a return of 1.7% net of fees. The 2Q GDP was 4.1%. While the US market is strong and up 7%, the International markets are down 2.6%. Individually the majority of managers continue to outperform their benchmarks.

Piotrowski provided an update regarding a reduced fee for Fidelity based on a newly defined share class reducing the fee from 94 basis points to 60 basis points, which would save around $49,000 annually. They would do a share class exchange but this class has only a one-year record; it does have exactly the same product/securities. However, the DOI requires by state statute that any fund have a five-year record (per Statute Section 1-113.4A-C2: *the mutual fund must be in operation for five years*). This is the same mutual fund and the DOI might not question it but the Board may wish to stay conservative and wait. Piotrowski feels comfortable recommending the switch. Further discussion centered on deciding to present the case to the DOI or if the fiduciary responsibility to save the $49,000 annually. Attorney Holzwarth's recommendation was to lay over the decision for another month and do some research.

The other update was in reference to Fidelity also; they came out with massive reductions in their index fund products across the board. All of the Police Fund indexed funds are with Vanguard. If all the Vanguard funds were to be moved to a Fidelity index fund, the Police Fund would save about $11,000/year. Marquette would recommend the move but with the proviso that the Police Fund would be "out of the market" for a short period of time while making the switch.

Piotrowski reviewed one item in the quarterly report with the Board: Exhibit II, page 5. Charts showing market values and cash flows which show that over the last five years the Fund has paid out (net/net) $38 million versus $68 million in investment earnings. Being fully invested over the long term "works." The report looks at each manager and the last page gives a fee summary. The Fund pays out in total about $800,000/year or 4% which is not bad for such a large fund.

Motion by Mueller and seconded by Laue to approve purchases and sales. APPROVED.
Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

CITY BILLS

Motion by Mueller and seconded by Laue to approve July postage charges of $130.07. APPROVED.
Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Motion by Mueller and seconded by Laue to approve July City Services of $7,133.33. APPROVED.
Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Motion by Mueller and seconded by Laue to approve payment to HolmstromKennedyPC for July attorney fees for general matters in the amount of $3,048.75. APPROVED.
Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Motion by Mueller and seconded by Laue to approve payment to HolmstromKennedyPC for July attorney fees for annual medical reviews in the amount of $1,462.50. APPROVED.
Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Motion by Mueller and seconded by Laue to approve payment to Dr. A.P. Rosche of Advanced Pain Intervention for the examination of Mark Honzel for his IME in the amount of $500.00. APPROVED.
Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Motion by Mueller and seconded by Laue to approve payment to Dr. A.P. Rosche of Advanced Pain Intervention/ for the examination of Holly Berke for her IME in the amount of $500.00. APPROVED.
Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Motion by Mueller and seconded by Laue to approve payment to Rockford Orthopedic Associates for the examination of Mark Honzel for his IME in the amount of $525.00. APPROVED.
Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Motion by Mueller and seconded by Stevens to approve payment to Marquette Associates for the investment consulting services for the period ending August 31, 2018, in the amount of $6,041.67. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Motion by Mueller and seconded by Stevens to approve payment to Kayne Anderson Rudnnick for the investment management fees for the period ending June 30, 2018, in the amount of $27,157.77. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Motion by Mueller and seconded by Stevens to approve payment to Segall Bryant & Hamill for the investment management fees for the period of ending September 30, 2018, in the amount of $20,433.64. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

ATTORNEY'S REPORT

Attorney Holzwarth didn't have any action items for the Board; however, she did comment on the IME for Holly Berke where the physician did recertify her disability but seemed to "waffle" in his description. Holzwarth does, however, feel comfortable with the Board approving the continued payment of her disability benefit. Holzwarth also pointed out that Berke does turn 50 next year so will not be subject to an HME.

Holzwarth said the Board could wait until all the IMEs are received and accept them all at once.

Holzwarth mentioned that she had sent out the latest draft of the Policy Manual which has the changes on the Trustee election procedures. As far as a question about the two appointees, they are appointed according to the Pension Code and the City's policy and procedures and this could just be referenced.

OLD BUSINESS

Policy manual - See Attorney's comments above.

Article 3 to Article 3 transfers – nothing new.

Matter of Oda Poole – Per Linda Wlaznik payment has been received but we have not yet received an application. Linda Wlaznik will remove it from the agenda for now. Calculations had to be redone for July. Wlaznik searched the minutes and did not find anything in the minutes about interest accrual but the payment made did include the added interest that she had calculated. Motion by Mueller and seconded by Stevens to accept the payment of $41,798.98 including interest through July 31, 2018, which payment was made on his behalf on July 31st in order to reinstate him in the pension fund. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

NEW BUSINESS

Motion by Mueller and seconded by Laue to approve the service pension for Kristin McLester effective August 7, 2018, with the first prorated monthly benefit of $5,177.17 for the period ending August 31st and an annual pension of $76,932.08. The Board retains jurisdiction of this matter for purposes of enforcing the Pension Code. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Closed session minutes – Holzwarth recommended any closed session minutes remain closed. Motion by Mueller and seconded by Stevens to approve holding the closed minutes reflected on the list as closed going forward. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

Affidavits – Linda Wlaznik reported 64 affidavits outstanding and the due date is the 31st. Can send out reminders this week.

PAYROLL

Motion by Mueller and seconded by Laue to approve the August estimated payroll in the amount of $1,488,057.60. The Board retains jurisdiction of this matter for purposes of enforcing the Pension Code. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Laue
Nays: None

PIMCO Strategy Review of August 16, 2018, by Priya Bishen – Ms. Bishen briefly discussed the PIMCO All Asset Fund and its sub-advisor Research Affiliates, their structure, personnel, policies and investment strategies.

Ms. Bishen noted that based on client input and interest they are working on integrating technology with finance and participating in social impact investing and ESG which is environmental and social government.

Makeup of the Fund is 10% Core stocks, US and international; 14% Core Bonds and 77% “Diversifiers” made up of emerging markets bonds and equities, commodities, REITS, Credit and inflation-linked bonds and alternative strategies. Mike Piotrowski said this fund allows for investment in assets that one wouldn’t invest in individually and provides inflation protection. Ms. Bishen stressed that the investments are tied to valuations, what they consider “cheap.”

In 2017 the performance of all equities (Third Pillar – pg. 20) were up. In 2018, most of the asset classes were negative due to the “choppy environment” and PIMCO believes that this has given them a lot of opportunities to add to exposure; they’ve been adding to their EM exposure because it’s become so cheap.

Current investment is $9.3 million. Performance of the Police Pension Fund shows a 2.8% growth (net of fees) since inception in 2013, one year is 4.2% and YTD it’s down about 1%. (Pg. 21) PIMCO believes that market performance is cyclical in nature and this fund does well in a bull market which we are in right now; they believe this cyclical trend will continue and they have “conviction” in their strategy going forward. Fees are a total 86.5 basis points.

Ms. Bishen called attention to the average yield of the PIMCO All Asset Fund (pg. 29) of 5.5%. PIMCO believes that as inflation continues to rise, the fund will do well given the high correlation of asset to inflation. The benchmark they use is the CPI plus 5% which is currently at 1.5-2%. The expected long term performance (pg. 30) is to outperform a 60:40 portfolio by about 3%. They believe there is a lot more potential in the EM space where assets are "cheap" than US equities which means the portfolio is positioned well in case of recession when US equities will fall. (pg. 32).

In conclusion, Ms. Bishen stressed that the PIMCO All Asset fund is positioned in the "diversifying bucket" and it's meant to provide real returns on a net of inflation basis.

Actuarial report presented by Mike Zurek of Nyhart – Zurek explained that the report is to confirm that the Fund is complying with the minimum state requirements. It is his job as actuary to project future benefits by looking at what's been paid in the past and trying to estimate when people retire, when they become disabled, etc., based on the past history.

- There were some changes in assumptions. The DOI does a new experience study every five years and last year did a new experience study with its new actuary, GRS. The purpose was to provide greater experience with larger funds but there is still not enough creditable experience. They pooled all the plans. Nyhart's recommendation is to use the demographic new assumptions for 2018 and not the 2012 demographic assumptions used previously.

- The new DOI assumptions are based on: demographics; new salary scale; the payroll assumptions have been lowered from 4-1/2% to 3-1/2% which raised contributions; they lowered their investment return assumption to 6.5%. The DOI's actuary predicts that the impact of the new assumption study was a 8.5% increase in unfunded liability and a 21.7% increase in the actuarial contribution.

- Nyhart did not see as much of an increase in its actuarial valuation for the Fund. They are adopting the demographic assumptions from the DOI but did not adopt any of the economic assumptions. They are recommending that this Fund adopt the new IDOI demographic assumptions for the 2018 valuation.

- The other part of the assumption review is mortality. Nyhart is looking at mortality separately. The Society of Actuaries released a new table, the RP 2014 and have changed it each year. But this is for private plans or the corporate world and the mortality improvement scale was "way out of line with historical averages" and it keeps changing each consecutive year. Nyhart believes there is a better way to do an improvement scale so there will be a new table for 2019 taking into consideration the differing employment sectors with one for police and fire. Nyhart feels the DOI table is not the right one and recommends holding off until the new table comes out, i.e. use the static approach – a new generational approach, not just gender and current age; the new approach will use the year of birth to predict life expectancy. We're applying 18 years of mortality improvements this year using the same basis as the 2017 valuation.

- Nyhart recommends sticking with the 7.5% assumption rate. Although the DOI lowered their assumption rate from 6.75% to 6.5%, they are using a different asset allocation. The 7.5% rate falls within the range but is near the high end. A study of the big state plans shows the most commonly used assumption is 7.5% but that is being reduced by many pension funds. Mike Piotrowski said Marquette's asset allocation study at the end of the year showed the assumption rate to be in the 7% range but the longer we are in a low interest environment, the harder it will be to get to the 7.5% rate. This Fund's biggest problem versus the larger public plans is the limited allowable allocation to nonfixed income allocations. Nyhart and Piotrowski agreed this is a long-term strategy and the rates need to be considered over time.

- The survey of interest rates used by large public plans shows Rockford Police Fund rate is still the most commonly used rate but the trend is to reduce it.

- Page 6 of Nyhart's report shows the statistics for participants. There was not a whole lot of difference from 2017 – the average age and average service stayed the same. 288 active participants and 50 "inactives" 42 of whom left their benefits in the Fund (and are not earning interest) and 8 who will receive a deferred benefit. Nyhart suggested the board may want to contact those 42 people who have a refund coming.

- Page 7 shows the change in assets. State statute says a five-year smoothed asset should be used so investment performance is being measured over a five-year period. The market value of the net investment returns in calendar year 2017 was 13.8%. The market value at the beginning of 2017 was about $5.4 million lower than the actuarial value. This loss has to be recognized over the last 5 years. At the end of year, however, there's a $4.2 million deferred gain that will be recognized over the next 5 years which is a function of the returns. "This is good news."

- Page 8 reviews the contribution and illustrates the unfunded liability. If we contribute the cost of benefit accrual and the interest, then the unfunded liability will remain the same. If more than the normal cost and interest is paid, then the unfunded liability will go down. Right now we're not paying enough to draw down that unfunded liability. This is within the state statute but it means the City will have to contribute more later to pay down the unfunded liability. The unfunded liability will only grow in the next 10 years by following the current 90/40 contribution. The Fund is currently in a negative amortization state. Zurek encourages front-loading the contributions because it does have benefits "for the metrics of this plan."

- Page 9 shows the 2018 valuation results. In 2017 the Fund was 63.4% funded based on the statutory minimum (projected unit credit, 90% funding by year 2040). Nyhart prepared several scenarios for review. For the valuation, Nyhart did adopt the DOI demographic assumptions which put the Fund at 63.8% funded and the unfunded liability only changed by about $30,000 and the normal cost went up by about $100,000. This puts the required contribution up by about 3%over the recommended contribution a year ago of $7,970,750. If they had adopted the DOI mortality table, the contribution would have gone up by about $600,000.

- Pages 10, 11 and 12 illustrate the projections for contribution levels, funded status and unfunded liability giving 90% funded (red bar) versus 100% funded (dark blue bar) over a 23-year amortization period. Increased funding, Zurek said, changes dramatically the actual cash savings due to paying down the unfunded liability earlier. It has a big impact on the contribution policy. If the policy were to fund 100% by 2040, which would increase the contribution from $8 million to $10 million, the fund would save about $45 million over the course of time.

- Zurek will be presenting the report to City Council on Monday. Holzwarth is preparing the levy request letter which will be presented in October.

CLOSED MEETING – None

ADJOURNMENT

Motion to adjourn was made and seconded at 10:37 a.m.