



## V. CASH & INVESTMENTS

Carrie Nichols and Drew Peterson presented the Fiduciary Management (FMI) Report for September 30, 2019.

- The market's performance was much the same as last year and the Russell Value Index outperformed growth for the first time this quarter but still lags YTD. However, Fiduciary feels that things are changing and moving toward a value orientation. In the fourth quarter of 2018, value did outperform the benchmark.
- The first half of 2019 is similar to 2018 with a great deal of volatility. This has been a very long cycle and this bull market has lasted three times the length of the average bull market or 126 months versus 42 months. Fiduciary believes the market is only looking at risk and not at valuations and people are willing to pay high valuations for low risk.
- Fiduciary likes to focus on balance sheets and stay away from P/E multiples. Having done an analysis, it showed that 30% of the Russell loses money. Valuations are really over-stretched and are at peak margins. The entire market is overvalued, and it is difficult to put together a portfolio. Fiduciary is "proceeding with caution" and there are no new purchases for the quarter.
- Page 1 of the presentation shows Fiduciary's assets under management as \$22.8 billion and page 2 points out the reasons one invests with FMI. FMI has a 39-year track record, low turnover and invests in the same products that their investors are in.
- Page 5 focuses on performance and in 2018 the portfolio was down 9.63% net of fees versus the benchmark which was down 12.86%. YTD the portfolio is up 21.46% versus the Russell 2000 value at 12.82%. That performance is due largely to good stock selection and what FMI owns. FMI does not own any energy, levered financials or any biotech companies, all of which have struggled.
- Page 6 shows the portfolio's performance since inception. Net of fees the portfolio is up 14.09% versus the benchmark at 11.64%. Page 7 shows the investment performance in terms of dollars. Initial investment was \$4.7 million and given contributions and (\$5.75 million) and withdrawals (\$18.56 million) the value of the portfolio as of September 30, 2019, is \$10.23 million or an increase of \$18.34 million.
- Drew Peterson went over the stocks that detracted from the portfolio's performance and those that helped (page 8). Stock selection and lack of exposure to energy stocks and commodities helped while lack of direct exposure to utilities hurt.
- FMI's stock weightings (page 9) are different from the benchmark and they feel this is where their success lies. Pages 13 and 14 show purchases and sales of stocks for 2019 and the description or rationale in the case stocks sold.
- Carrie Nichols discussed FMI's market observations and focused on the current risks (page 15) and the importance of downside protection as provided by FMI (page 16).
- Pages 17 and 18 discussed the performance of value and the sequence of bull and bear markets since 1900. Page 19 stresses the nature of cycles and in particular that they are inevitable, and it pays to remember the past.
- The remaining pages provide, 2019 stock data and historical information and the market as a whole.

- Mike Piotrowski commented that they do not have a lot of issues with FMI with the exception of the amount of cash they hold. Consequently, we have placed a restriction on the amount of cash that they can hold – 10% maximum. They do well in stressed markets. They are a value manager but not deep value. Discussed the appropriate benchmark -- Russel 2000 value or just the Russell 2000 and whether FMI is small cap or midcap.

Mike Piotrowski presented Marquette Associates’ Flash Report for September 30, 2019:

- The Fund is at \$160.8 million and has a slight overweight to equity and underweight to real estate. There is sufficient cash on hand and there is no need to sell investments for cash needs.
- September was a pretty “benign” month with performance a positive 1% and the quarter at 0.3%. YTD performance is a positive 10.9% for a “great absolute return.” Versus the assumed rate of return, the policy benchmark is lagging by about 30 basis points largely due to the equity rate of return and the value bias. However, with the elimination of Brandes, with made some positive changes. Mike Piotrowski stressed, however, that in September there was a big reversal back into value from growth but the question is if this is long term.
- In the marketplace at large, there are continued concerns involving global trade and Brexit. However, “all eyes are on corporate earnings.” It is all on the consumer right now as they have been supporting this market. As long as the consumer keeps spending, the economy remains strong. The portfolio “has rebounded quite nicely” compared to where we were a year ago.
- There are no cash needs for the month.

Records of purchases and sales were distributed. Michael White made a motion, seconded by Carrie Hagerty, to approve the purchases and sales for the month. A roll call vote was taken:

**Ayes:** Alan Granite Bill Beaman  
Carrie Hagerty Michael White

**Absent:** Todd Monahan

**Nays:** None

## VI. OLD BUSINESS

*Gustafson disability matter* – Attorney Carolyn Clifford went through every one of the IME reports and the incidents reports submitted in response to the subpoena. She can now send the packets over to Tom Duda’s offices so a hearing date can be set. The packets are very dense and the records from the City alone are about 1600 pages. She will issue the proposed exhibit packet for hearing to Duda next week and at the November meeting she will issue the packet to Board members on jump drives. She anticipates that Duda will require the IME doctors to testify and will probably want their own expert to issue an opinion. The hearing will probably take a couple days so while it can start in December it will probably not finish until after the holidays. Attorney Clifford asked Carrie Hagerty to remind the City that they have a 21-day window to intervene ahead of the hearing date. Costs to date are \$11,150 but there will be more.

*Status of Lingel’s transfer of creditable service to Chicago* – Allison Knox has emailed Travis for an update but he has not answered back. There is no deadline, but in the meantime, interest will accumulate.

*Board Rules & Forms* –Review of the updated Board Rules and Forms has been moved to December.

## VII. NEW BUSINESS

*Report to City Council/Tax Levy* – Attorney Clifford provided a rough draft of the tax levy letter to City Council. In it, the Board asks for a \$10,696,770 contribution as calculated by Nyhart, based on the new, lower investment return of 7.4%. The statutory minimum required by the DOI is \$15 million which is based

on the 6.5% assumption. She also thanked the City for its commitment to lowering the investment return assumption over the next three years. \$1,285,852 is to be levied outside the cap.

Allison Knox noted that there was an error on the Report to City Council provided to the Board: Under No. 4 *Investment Returns*, the assumed rate of return for 2018 should read 7.5% and No 7 should read *Pension Benefits Paid* (not Pensioners). Attorney Clifford asked that signature lines be added for the President and Secretary of the Board. Carrie Hagerty will present this to City Council on the 28<sup>th</sup>. Alan Granite made a motion, seconded by Michael White, to approve the tax levy request letter to the City in the amount of \$10,696,770 and to certify the report to City Council with changes as noted. A roll call vote was taken:

**Ayes:** Alan Granite Bill Beaman  
Carrie Hagerty Michael White

**Absent:** Todd Monahan

**Nays:** None

## VIII. TRAINING

*Legal updates* – Attorney Carolyn Clifford provide three items to the Board:

- 1) Third Quarter Insights on the issue of not providing individual trustees’ personal social security numbers on pension fund bank accounts.
- 2) A summary of a presentation Attorney Clifford gave at the June NAPPA conference. One was on funding issues including some slides. This highlights what is going on in other states that do not have the same constitutional restraints that the State of Illinois has.
- 3) The other presentation is about firefighters and cancer. She discussed a case with which she is involved relative to cancer as a line of duty death and the surviving spouse’s rights.

On consolidation, the Board discussed what is being considered, which is a consolidated fund where the local boards would only be responsible only for benefit payments and not funding and investments. Discussed alternatives and the benefits of an IMRF model which enforces funding and has no state politicians involved.

Carrie Hagerty indicated that Nyhart had been asked to calculate the effect of the proposed Tier II changes. It would be 17% for Police and 19% for Fire as an increase in benefit obligations. Discussion stressed the discrepancies in the calculations due to the varying sizes of the funds. The IPPFA has issued a resolution for the Board addressed to the General Assembly asking them not to take action on the consolidation legislation during the veto session. Carrie Hagerty said she thinks it might be wiser to wait until the bill is crafted.

## IX. CLOSED MEETING – None

## X. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried, and meeting was adjourned at 5:05 p.m.

Next regular meeting is November 21, 2019, at 3:00 p.m.

Respectfully submitted:

Prepared by:

Bill Beaman, Board Secretary

Judith Yehling, Recording Secretary

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Date

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Date

*Approved by the Board of Trustees at its November 21, 2019, meeting.*